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SPECIAL AD HOC COMMITTEE

COUNTRY REPORT ON INDOCHINA

15 July 1947

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E N C L O S U R E

STATE-WAR-NAVY COORDINATING COMMITTEE

SPECIAL AD HOC COMMITTEE

INDOCHINA

BACKGROUND

I. ANALYSIS OF THE SITUATION IN THE COUNTRY

Indochina, over which French sovereignty is recognized by this Government, is divided into three main ethnic areas. In the West are Laos and Cambodia which are governed as nominally constitutional monarchies but which are actually under firm French control. These two states are relatively primitive and will not receive special treatment in this study. The third area, inhabited by 18 million Annamese, embraces the three east-coast provinces of Tonkin, Annam and Cochinchina, over which France exercised complete control before the war. Following the Japanese surrender, Annamese nationalists under the leadership of the communist-dominated Vietminh League proclaimed the independence of the Republic of Vietnam comprising all three provinces. A bitter conflict ensued between the French and the Vietnamese which in the past seven months has amounted to open war. The main elements in the situation may be characterized as follows:

A. The Vietminh League. The Government of the Republic of Vietnam is controlled by the Vietminh League, an organization representing an alliance of Communist and nationalist forces. The way had been prepared for the ascendancy of the Communist element in the nationalist movement during the pre-war decade when the extreme measures taken by the French administration against nationalist agitation resulted in the elimination of all but the most determined and best organized of the revolutionaries, among whom the Communists were pre-eminent, and drove the Annamese intellectuals into clandestine societies which cooperated with the Communists. Ho Chi Minh,

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a Moscow-trained agent of long standing, became and remains the first President of Vietnam and has never publicly recanted his former Communist affiliations. While Ho Chi Minh has dismissed as "French propaganda" the charges that his Government is Communist, other admitted Communists hold some of the most important ministries in the Vietnam Government. The Vietminh organization is thorough, extending down to the villages and is reported to tolerate no opposition.

At the same time, the present leaders of Vietnam unquestionably owe their hold upon their followers to their record of staunch championship of the nationalist cause. They may have originally adopted Communist techniques because of the necessity of finding an effective instrument to oppose to the repressive policies of the French and have been drawn toward Moscow because Moscow represented the source of revolutionary doctrine. The Vietminh pattern appears to differ from the Communist pattern in other areas in that (1) Ho Chi Minh has emphasized Vietnamese neutrality toward the Civil War in China, while attempting to elicit support from both the Kuomintang and the Chinese Communists for Vietnamese independence, (2) prominent figures in the Vietnamese Government have been critical of the French Communist Party and generally distrustful of its attitude toward their struggle for liberation, and (3) in regard to the United States, the outward attitude of the Vietnamese leaders has been one of friendship and admiration, and American correspondents have been welcomed in areas under Vietnamese control.

Proof of a clear divergence between Vietminh and Stalinist aims and methods is, however, lacking. Ho Chi Minh, doubtless eager for support from either quarter, has never taken sides in the diplomatic struggle between the U.S. and the USSR. He has -- studiously, it must be supposed -- avoided making any declarations which could give offense to either country.

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Two facts stand out. First, that the Communist factor in Indochina is only one factor in a nationalist movement of tremendous momentum; second, that men who in the past have taken an active part in the Communist movement (some of whom still openly style themselves Communists) hold the leadership of that movement, if perhaps only momentarily.

While offering to respect French economic and cultural interests, the Vietnam Government in its announced program calls for an independent Vietnam within the French Union. Ho Chi Minh has explained that independence means a status equivalent to that enjoyed by the Philippines and that to which India and Burma will attain. The Government has appealed to the United Nations for intervention and has requested the United States to bring the dispute before the Security Council. It has stated that it would welcome foreign capital in the development of the country.

B. The French. As the situation in Indochina has deteriorated, the French have privately laid increasing stress upon the Communist character of the Vietnamese leadership. Since the return of their troops in September 1945, their announced intention has been the formation, within the French Union, of an Indochinese Federation of which the Republic of Vietnam would be an autonomous member. According to more recent statements, the Federation would be non-political and be concerned with economic matters. Major differences between the French and the Vietnamese, involving the degree of autonomy to be accorded Vietnam and its territorial extent, have, however, so far proved irreconcilable. Throughout 1946, the actions of the local French administration appeared directed toward whittling down the powers and territory of the Vietnam Republic. In the view of the Vietnamese, these constant encroachments left them no choice but to resist or submit to the reduction of the Vietnam Republic to impotence. After a number of serious incidents,

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including the shelling of Haiphong by the French, the Vietnamese on December 19 launched an all-out attack upon the French. This act was considered by the French as requiring them to obtain a final military decision against Vietnam and as abrogating previous agreements. Since then, the French have achieved a marked but rather barren military success. They are now willing to resume negotiations but have been unable to produce a formula which would afford what they consider adequate protection for their economic and cultural interests and are unwilling to deal exclusively with the present Vietminh-dominated Government of Vietnam which the French term dictatorial, irresponsible, and terroristic. They maintain that, should it be confirmed in full power, the result would be a totalitarian regime and in a few years a Communist state.

C. Other Annamese Groups. The strength of pro-French Annamese sentiment is not known. In itself, it has not been an important factor in the post-war situation. Although the French succeeded in setting up an Annamese Government of Cochinchina independent of Vietnam and under their own control, this Government has had little influence. Those Annamese elements which might have most cause to fear the Vietminh League have still for the most part refused to identify themselves with the French owing to (1) the widespread hatred and mistrust of the French which has developed, (2) disinclination to appear to collaborate with a foreign enemy, (3) the intimidation practiced by Vietminh terrorists and (4) fear of reprisals should the Vietminh become the sole power in Vietnam. A number of anti-Vietminh Annamese parties which are at the same time anti-French have formed the National Union Front, which has as its declared aim an independent Vietnam free of Communist influence. It has so far not played a prominent role. Its importance derives from (1) the support given to its two leading parties by the

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Chinese Kuomintang, (2) its connection with ex-Emperor Baodai, who is reported to have a large following, particularly in Annam, and (3) its support by sections of the Cao daist religious sect which is extremely strong in Cochinchina. The National Union Front has sought our intervention.

D. Economic Situation. Indochina emerged from the Pacific war in a relatively better economic position than other areas in Southeast Asia. However, since V-J Day, its economy has deteriorated steadily and Indochina is now in worse condition than any other country in Southeast Asia. Rice production has decreased to less than 50 percent of the prewar level. Guerrilla warfare has disrupted and destroyed the badly damaged transport and communications system. Industry of all types is at a standstill. The only cotton mill which before the war manufactured cloth used by the natives has been stripped of machinery. Mining industries, largely in Vietnam hands, are not operating and mine machinery and transport equipment have been destroyed or are rapidly deteriorating. The almost complete cessation of coal mining has curtailed electric power production and necessitated costly importations of coal. Owing to the activities of guerrillas, plantations in the south, producing rubber, tea, sugar and other commodities, are operating on only a skeleton basis. Accumulated stocks of agricultural raw materials were exported in 1946 and new production, including rubber, is low and insufficient to provide significant quantities for export in 1947. The consequences of the Vietnamese "scorched earth" tactics have been described as appalling. Village after village is reported to have been levelled.

With political and military conflict obstructing the collection of taxes, the financial position of the government of Indochina is a difficult one. In 1945 and 1946, it borrowed from the Banque de L'Indochine to cover budgetary deficits; its indebtedness to the Banque at the end of 1946,

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1,700 million piastres, was an amount equal to one half the currency in circulation and, unless inflation increases considerably, may impose a heavy burden of interest and amortization payments upon the government of Indochina. Public and private financing has been handicapped by the wartime legacy of inflation. Currency in circulation has increased fifteen times between 1939 and October 1946. The French cancelled the notes issued by the Japanese after the latter seized control of Indochina in March 1945, and blocked certain earlier issues. On the other hand, the Vietnam Government has printed its own piastre notes in the north. The official cost of living index at Saigon based on 1939 - 100 stood in April 1947 at roughly 1560 for Europeans, 2000 for the native middle class, and 2400 for the native working class (a level which is considerably higher than that prevailing in France). The official foreign exchange rate of the piastre, i.e. 7 to the dollar, is an artificial one in view of local prices. On the black market, the piastre exchanges at over 30 to the dollar. Only with a solution of the military conflict can Indochina's financial problems be ameliorated.

E. Military Situation. The French, with superior arms and equipment, have occupied and now control the major cities of Tonkin, Annam and Cochinchina, with the Vietnamese remaining in control of the countryside. French troops, numbering about 110,000, are insufficient to destroy the Vietnam forces, estimated at 150,000, or even to garrison such additional areas as they might conquer. According to some French sources the complete military pacification of Indochina would require an army of between 250,000 and 500,000, which France is almost certainly incapable of providing.

F. Prospects of a Settlement. No solution of the present impasse would appear to be possible except a peace negotiated on the basis of compromise. However, it is clear that the French and the Vietminh are still far apart on major differences, while the intensity of ill-feeling on both sides must

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continue to present a formidable obstacle. The Vietnamese appear determined to fight as long as necessary to achieve political independence and the French appear equally determined not to yield control over the Annamese provinces to the present Vietnam Government.

As a primary condition to a lasting peace in Indochina, Vietnam must unquestionably be granted a very considerable degree of autonomy. At the same time, it is extremely doubtful if the French can by-pass the present leaders of Vietnam in negotiating a peace. Any new government of Vietnam which might be formed at French instigation, excluding these leaders, would be most unlikely to command the confidence and trust of the Annamese and would probably be suspect from the start. Certainly if the French wish to under-cut the Vietminh League they would have to offer the Vietnamese nationalist movement all the concessions they have heretofore denied it--that is, virtual independence for Vietnam. Practically speaking, it would seem almost inevitable that the French eventually deal with the present Vietnam Government which is, in effect, the sole power in Vietnam beyond the French perimeter.

The hope is, therefore, that the satisfaction of the nationalist demands of the Vietnamese will undermine the position of the extremists and clear the way for the ascendancy of moderate influences in the government, and that, in either case, the future Government of Vietnam will be one which will not do violence to the true interests of the Annamese people. Vietnam will need outside assistance when peace is established. The assistance which the United States can offer or withhold should prove an important factor in shaping the policies of the Vietnamese Government.

While it may not be easy to wean the Annamese away from Communist leadership, or safeguard them from one-party, totalitarian control of any kind, it would seem quite hopeless

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for the French to attempt to destroy the extremists and establish the moderates in power by further efforts to crush the nationalist revolt. The post-war conflict has had the effect of establishing the extremists more firmly in power. The danger is that a continuation of the conflict will only drive more Annamese into the Communist camp and strengthen the Communist leaders both in their ideology and in their hold upon the Annamese people.

G. The objectives and methods of the other great powers may be stated briefly as follows:

a. Great Britain has shown no great concern with the Indochina situation, having apparently concluded that it could not contribute to a solution. The British have, however, made clear their belief in the necessity of an early restoration of stability in Indochina owing to the serious consequences in nearby areas which may follow a continuation of the conflict.

b. The USSR encourages separatist movements in colonial dependencies partly in order to weaken the metropolitan power and partly in the expectation that in a liberated colony the Communist element will have a better opportunity to subvert the nationalist movement to its own ends. The considerable support which the French Communist Party has given to Ho Chi Minh would indicate that this policy applies to Indochina. The failure of Soviet propaganda to have made the most of the French-Vietnamese conflict may perhaps be ascribed to Soviet reluctance to embarrass the Communists in France. It is also possible that the Russians have hoped that inroads in Indochina might be made through the agency of the French Communist Party. There is no evidence to indicate whether or not the Soviet Union considers the Communist leadership of Vietnam a dependable instrument.

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c. China has shown an unmistakable interest in Indochina and is believed to be eager to extend its influence over the northern part of the country at least. A treaty with France concluded in February 1946 accorded China tax-free use of Haiphong and the Haiphong-Kunming railroad and granted Chinese nationals special privileges in Indochina. Both the Kuomintang and the C.C.P. are reported to be proselytizing the Chinese minority (estimated at 500,000) in Indochina. In addition, Annamese parties have been sponsored by the Kuomintang and undoubtedly Chinese interest in the National Union Front is strong. Chinese officials have admitted to us their concern lest an autonomous Vietnam under Ho's Government open the back door of China to Communist operations. The Chinese Government last winter approached both us and the British to propose our joint mediation in the French-Vietnamese dispute.

## II. ANALYSIS OF ASSISTANCE ALREADY RECEIVED

A. Analysis of political and economic premises on which economic aid was based. We have rendered no direct economic assistance to Indochina per se. Such assistance as we have rendered to the French, which has promised benefits to Indochina, has been extended in accordance with our policy toward France and the French Union. Insofar as our aid has been directly related to the needs of Indochina, it has been based upon our recognition that depressed economic conditions in the country would foster political unrest. At various times the French have requested us to supply arms or ammunition for use in Indochina. We have, however, consistently refused to provide such supplies. Our position has been based upon our decision in August 1945 that it was not the policy of this Government to assist the French to re-establish their control over Indochina by force and that the willingness of the United States to see French control re-established assumed that the French claim to have the support of the population would be borne out by future events.

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B. Summary of Assistance Given. Post-war economic assistance received by Indochina from the United States has been provided merely as part of a general post-war credit arrangement with France and has not been specifically reserved for Indochina. It has included 8-1/2 million dollars worth of surplus property, mostly transportation and communications equipment, sold to the French Government by the Foreign Liquidation Commission in 1946. Much of this equipment has undoubtedly been employed by French forces in their operations against the Vietnamese. The bulk of the equipment of these forces has been American equipment originally supplied to the French Army in connection with the war in Europe.

In 1945 and 1946 Export-Import Bank credits to France probably permitted larger French exports and dollar exchange allocations to Indochina than would otherwise have been possible. While the 1946 Export-Import Bank credit and the 1947 International Bank credit have enabled the French Government to allocate dollar exchange for Indochina considerably in excess of Indochina's estimated dollar export proceeds during 1946 and 1947, French-Vietnam hostilities and, to a much lesser extent, procurement delays, have prevented substantial utilization of such exchange. If an early political settlement is reached, it should be possible to utilize a significant amount of these credits for Indochina. Otherwise, they may be diverted entirely to other areas in the French Union.

C. Economic Assistance Pending and Contemplated. No direct U.S. financial aid to Indochina, or indirect assistance to Indochina through U.S. or International Bank credits to the French Government is under active consideration at this time, although it is contemplated that the French Union may need substantial assistance during 1948. The French Government has announced that 8 billion francs (U.S. \$112 million) would be provided for reconstruction and development following restoration of peaceful conditions in Indochina.

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TOP SECRETD. Analysis of Contribution to Indochina's Reconstruction.

The small amount of surplus United States materials transferred to Indochina has been of no benefit to Indochina's economy owing to existing hostilities. The French Government's allocation of dollar exchange for Indochina's use in 1947 indicates France's intention to cover Indochina's anticipated 1947 non-franc deficit through dollar resources made available to France through existing U.S. or International Bank credits. In the absence of political stability, however, Indochinese imports from the dollar area will consist chiefly of goods for immediate civilian and military consumption rather than for permanent reconstruction. Assistance to Indochina's reconstruction arising from U.S. aid in French industrial recovery must await the restoration of peace in Indochina and the subsequent allocation to Indochina of French industrial products.

A continuation of the present conflict will lead to further deterioration of Indochina's seriously dislocated economy, postpone reconstruction and increase future rehabilitation needs.

A further adverse factor in Indochina's internal financial position will develop should the French, as is likely, transfer to Indochina's budget a portion of the expenses of their military operations in the country. The burden will probably be a serious one, even assuming the re-establishment of peace by mid-1947, since the total military expenses of the French for the three-year period are estimated at \$570 million, some portion of which must cover local goods and services in Indochina.

E. Political Effects of this Aid. The political effects of the transfer of United States surplus property to Indochina has probably been slight in itself, although it has undoubtedly facilitated the operations of the French Army, despite the fact that it was transferred for non-military use. However, without the arms which we provided the French Army for use in the European war, the French could scarcely have attempted to reassert their control over Indochina. The political consequences of this

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assistance have therefore been great. American arms in unknown quantities, some dropped to the Annamese resistance during the war by the U.S. Army, some obtained from Chinese sources, are also in the hands of the Vietnamese. The Vietnamese have been, of course, aware of the extensive use of American arms by the French and have frequently complained on this score. At the same time, the French probably resent our refusal to assist with further transfers of arms and ammunition. Despite ostensible U.S. aid to the French, the Vietnamese have not construed our actions as hostile to their own cause and appear to continue hopeful of American sympathy and aid. The French in Indochina, however, have often been highly critical of the United States.

#### OBJECTIVES

#### III. U.S. OBJECTIVES IN THE COUNTRY.

Our immediate objective in Indochina is a prompt, peaceful, and lasting settlement of the present French-Vietnamese dispute. We are concerned lest a continuation of the war (1) permanently alienate the Annamese from France and from the influence of the democracies generally, (2) contribute to the spread of anti-Western Pan-Asianism by providing anti-Western forces with a rallying-cry, (3) play into the hands of the Communists by reducing the Annamese people to desperation and by affording Asia the continued spectacle of a colonial war, and (4) further impoverish the country. We consider it essential that the settlement meet legitimate demands of the Vietnamese for self-government within the French Union, since the failure of the French to meet these demands could only result in an eventual repetition of the present revolt. We believe that the Government of Vietnam should be one in which the Vietnamese have confidence and for that reason should include the leaders trusted by the Vietnamese, should be responsive to the fundamental interests of the Vietnamese, and should be free of totalitarian controls. We believe that it will be to the best interests of both countries if France and Vietnam remain in close association, provided such association is voluntary. We believe

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that such association, through which the technical assistance and political guidance of a Western power will be available to Vietnam, would provide the Vietnamese with the most effective, feasible safeguard against the dangers which threaten a politically inexperienced people. In the case of Vietnam, we are most concerned lest internal discords and weaknesses tempt the intervention of another power and exert an unsettling influence throughout Southeast Asia, or that Communist elements, taking advantage of such discords and of economic dislocations, take permanent control of the state and subvert it to the requirements of Soviet policy. Our chief objective is to prevent these eventualities. We consider that a stable, representative government of Vietnam will best be able to resist such developments, and that its stability will depend in large part upon the restoration of Indochina's economy. Beyond this, we desire that conditions be created conducive to sound and comprehensive economic and cultural development through relaxation of unduly restrictive economic controls and by the establishment of equitable and non-discriminatory opportunities and treatment for private American (and other foreign) interests vis-a-vis French interests in Indochina.

PROGRAM

IV and V. MEANS OF REACHING OBJECTIVES AND MAGNITUDE, NATURE AND TIMING OF THE MEASURES REQUIRED WITHIN THE NEXT THREE TO FIVE YEARS TO REACH THESE OBJECTIVES

A. Political. A political settlement between the French and Vietnamese is an essential condition to the attainment of our objectives in Indochina. United States mediation in the dispute might offer advantages but would probably be unacceptable to the French. We have already on several occasions stated that we are ready to do anything which the French might consider helpful, but our offer has been declined. We have also periodically urged upon the French the necessity of a speedy, peaceful solution of the conflict recognizing legitimate Vietnamese demands and have expressed, explicitly and in detail, our concern over the probable

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consequences of its long continuation. Further than this we have been reluctant to go since any appearance of our attempting to intervene in Indochina would in the present state of French opinion, conflict with our policy toward metropolitan France by embarrassing the pro-democratic moderate elements. However, should the present situation be prolonged through manifest French recalcitrance, the embarrassment which the cause of the democracies in general would suffer might well require us to define our point of view publicly in order to salvage our moral position in the Far East.

B. Economic. Since the economic rehabilitation of Indochina cannot be undertaken except on the basis of French-Vietnamese collaboration, economic means for the attainment of our objectives cannot be employed until a settlement is reached. However, an offer of American financial assistance in the rehabilitation of the country, subject to the negotiation of a settlement taking into account the legitimate interests of both sides, might well hasten such a settlement. Participation by the United States in economic consultations with responsible authorities of the French and Vietnam Governments might help them compose their differences, but such participation would have to await French invitation. If a satisfactory political settlement permits, pre-war levels of economic activity should be restored as rapidly as possible in order to provide economic conditions conducive to political stability. Assuming that a settlement is reached in 1947, it is estimated that completion of a reconstruction program by 1950 would require at the minimum imports from all countries of about \$120 million more than the proceeds of Indochinese exports during the period 1948-1949. It is estimated that not more than \$30 million (franc equivalent) of the total deficit will be incurred in trade with the rest of the French Union. Of the balance of Indochina's total deficit (\$90 million), about \$75 million reflects Indochina's requirements for imports from the U.S. in excess of its anticipated exports to the U.S., while the

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equivalent of about a \$15 million deficit would be incurred in trade with areas other than the U.S. and the French Union.

The reconstruction program is based on estimates of capital equipment needed to replace and repair damaged industrial, transportation and communications facilities. It also includes raw materials to the extent of operable plant requirements during the period, and allows for moderate imports of civilian consumption goods. If recent and future destruction of capital plant proves substantial and if Indochinese exports are not resumed to the extent anticipated, the total deficit would be increased correspondingly.

Foreign financial aid in the amount of the total deficit would be required for completion of a reconstruction program by 1950. While it would not be necessary for the U.S. to finance the entire amount of such a deficit, substantial American financial aid would clearly be preferable to a slow program of reconstruction depending upon the output of French industry which is already heavily committed to the internal needs of France and of other parts of the French Union. Such assistance should prove a most important part of our program and is probably vital to its success. The extension of aid must be, however, conditional upon a settlement of the present war which will satisfy the legitimate demands of the Vietnamese and safeguard the legitimate interests of the French, which are construed to be of an economic and cultural nature. The U.S. financial aid could be most effectively related to the achievement of U.S. objectives in Indochina if it were extended by this Government directly rather than by the International Bank.

C. United Nations. Since we wish to limit as far as possible the ability of the Soviet Union to insert itself in the situation in Indochina, we should not contemplate bringing the French-Vietnamese dispute before the Security Council or encouraging any other nation to do so. This decision might well be reversed, however, should adjacent areas become involved in the

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dispute and direct diplomatic means available to the United States prove unequal to the situation. We have warned the French that should the dispute be brought up by some other nation at the present time we should not only find it difficult to oppose an investigation -- unless negotiations between the two parties were in progress -- but should also consider that France's own long-range interests would require her not to exercise a veto.

During the period while France is the responsible governing authority of Indochina, France would be the channel through which economic and technical assistance from the United Nations and its agencies for Indochina must be directed. Technical assistance by ECOSOC and the specialized agencies, in the modernizing of agriculture and industry, and in extending health, welfare and educational services might well be recommended as complementary to any financial aid rendered by the United States, the International Bank, or the International Monetary Fund.

Details of the ways in which aid might be rendered by United Nations agencies have been set forth in Addendum of June 10, 1947 to SWNCC 360 of April 24. Any specific recommendations would have to be made in the light of over-all policies of the Department of State and in the light of political factors influencing the United Nations at the time.

The further possibility is recognized that, under the situation envisaged in paragraph E below, the Vietnam Republic might be considered as having a sufficiently autonomous status to enable it to bring a complaint to the attention of the UN under Article 35 of the Charter. Under these circumstances the propriety of our proposed military aid to the French might be the subject of such a complaint before UN.

D. Information and Cultural Program. By providing a source of uncensored news, USIS Saigon and our broadcasts to Indochina may, in their effect upon French and Vietnamese attitudes, be a factor in hastening a settlement of the conflict, although our operations have so far been necessarily very limited. However,

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it is expected that the Information and Cultural Program will play its most important role after a settlement has been achieved and we are able to set up a USIS in the Vietnam Capital. Present indications are that the service would be welcomed by the Vietnamese. We consider that its operations will prove a most effective means of combatting any anti-American, anti-democratic and pro-Communist trends within Vietnam and of encouraging the association of the Vietnamese with the democracies. We shall accordingly develop them to the full. Student and professional exchanges will be encouraged and facilitated and if possible assisted financially.

E. Military. The ability of the U.S. to further its objectives in Indochina through the extension of military assistance is dependent upon future developments in the present dispute between the French and the Vietnamese. Should a firm French-Vietnamese peace develop no necessity would exist for U.S. military assistance. Thereafter a Vietnamese army of a size adequate to maintain internal order and border security would be well within the capabilities of the French to equip.

Under the present conditions, however, it is inconceivable that military assistance to either side will contribute toward attainment of our immediate objective, a peaceful and lasting settlement. Military aid under present circumstances should therefore not be considered. On the other hand, should the Vietnam Government emerge as a clearly totalitarian authority oriented toward and actively supported by the USSR in its fight against France, assistance to France may be necessary to prevent the establishment in Indochina of a Communist State. Assistance in the form of military supplies and equipment might then be favorably considered if requested, contingent upon French assurances that the legitimate demands of the Vietnamese for democratic self-government within the French Union will be met upon overthrow of the Vietnam Government.

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The possibility of civil war occurring in France during the present impasse in Indochina must not be overlooked. Should the Communists gain control of metropolitan France a re-evaluation of the situation would be necessary in the light of the then existing political relationship between Communist France and the French administration in Indochina, and of the Vietnam Government with the USSR and with Communist France. Since it is impossible to predict these relationships at this time, any further discussion of military assistance after an outbreak of civil war in France is impractical for the time being.

VI. PROBABLE AVAILABILITY OF ECONOMIC AID FROM EXISTING SOURCES UNDER PRESENT POLICIES.

As long as the present war continues in Indochina, no reconstruction will be possible. All French resources will necessarily be invested in the military effort and no foreign country is likely to risk loans. Existing foreign lending and investment sources, public or private, would not be likely to extend funds until a sufficient period had elapsed after a peace settlement to show that reconstruction efforts would not be endangered by further warfare. Once such evidence is provided, existing agencies should be able to find economic justification for extension of credits to Indochina in view of that area's historically favorable balance of trade.

A. International Sources. The availability of funds from the International Bank is dependent upon unpredictable reactions of the private market to its securities and may be limited by the amount of its existing advances to France and other demands on its resources. In the absence of direct large-scale U.S. financial assistance to France, any credits the Bank may extend for the French Union are likely to fall short of the needs of metropolitan France and could therefore not be expected to contribute substantially to the reconstruction of Indochina. However, Indochina may benefit to a moderate extent through the purchase by France of dollars from the International Monetary Fund.

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B. Private Capital. Private dollar holdings abroad of Indochinese or of French interests in Indochina are believed to be small and are not subject to effective control by the French Government. Even if they were voluntarily used in their entirety to finance essential Indochinese imports during 1948-1949, they would not substantially alter Indochina's need for additional dollar assistance. Private French holdings of Sterling are believed to be sufficient to cover the anticipated deficit of approximately \$15 million arising out of Indochina's trade with areas other than the French Union and the U.S. The investment of capital in Indochina for reconstruction by nationals of France or of third countries (other than the U.S.) is subject to general severe limitations on the ability of those countries to export. American private capital is not likely to be interested in Indochina unless restrictive and exclusive laws and practices imposed by the French Government are relaxed to permit more favorable treatment of foreign investment and trade.

C. Direct Governmental Sources. The intended French reconstruction credit of 8 billion francs will be adequate to cover the estimated 1948-1949 trade deficit of Indochina with France, (or a considerably larger one should France be able to export more than is anticipated) as well as Indochina's needs for credits to meet budgetary deficits. It is believed that no other country except the U.S. is in a position to extend substantial long-term public credits to Indochina over the near future.

Indochina will need financial assistance from the U.S. at least for the extent of its estimated trade deficit of \$75 million with this country during the period 1948-1949. The need for U.S. aid would increase if total reconstruction needs prove to be greater than is estimated, or if Indochinese exports recover more slowly than is anticipated. Likewise, failure of French exports to Indochina to achieve the anticipated volume would presumably increase Indochina's need for imports from the dollar area, and accordingly its need for U.S. financial aid. The

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ability of the Export-Import Bank to extend financial aid to Indochina in this magnitude will be limited by competing demands upon its resources unless its existing uncommitted funds are augmented substantially.

In estimating the possible resources available to Indochina, the approximately \$37 million in gold earmarked to the account of the Banque de l'Indochine in the Bank of Japan should not be overlooked. The validity of the French claim to this earmarked gold has not yet been recognized by this Government. If this should be made available to Indochina, the amount of aid required from the U.S. might be correspondingly less.

#### VII. ADDITIONAL MEASURES REQUIRED FROM THE UNITED STATES.

Since it is judged essential to the achievement of U.S. objectives in Indochina that sufficient financial aid to enable reconstruction by 1950 be offered directly by this Government, a Congressional appropriation for Indochina of at least \$75 million would be required if no loans are available from the Export-Import Bank.

#### VIII. NATURE OF ARRANGEMENTS WITH THE FOREIGN GOVERNMENT TO ASSURE ACCOMPLISHMENT OF OUR OBJECTIVES IN TAKING SUCH MEASURES.

Since no anticipated political settlement is likely to recognize Indochina as a sovereign state, any loans made following a settlement would have to be guaranteed by the Metropolitan French Government. Whether a loan should be extended to an Indochinese Government, or through the Metropolitan French Government, would depend on the degree of autonomy achieved by component parts of Indochina or by an Indochinese Federation and on other political considerations at the time. It is anticipated that France will need additional direct U.S. financial aid in 1948 and a portion of such aid, if extended, might be explicitly designated for Indochina. In any case, a clear agreement should be reached regarding the purpose for which any funds for Indochina are to be used. To the extent that Indochinese collaboration is required for effective

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use of American financial or military aid, it would be desirable that negotiations include discussions with representatives of Vietnam and other Indochinese states concerned, as well as with the French, and that such commitments as are necessary and appropriate be obtained from those representatives.

It is hoped that Indochina's economy in the future will be free of those restrictive measures by which the French in the past have dominated it to its detriment and that Americans in Indochina will be assured of freedom from economic discrimination on the basis of nationality. Such considerations should be introduced in any discussions with the French and Vietnamese of projected United States assistance, although it may not be possible to obtain full satisfaction in this regard as a prerequisite to financial assistance.

IX. EFFECTS UPON THE COUNTRY AND UPON U.S. FOREIGN POLICY IN U.S. REFUSAL TO GRANT AID OR OF FAILURE OF PROGRAM UNDERTAKEN.

Our concern with Indochina is predicated upon our interest in the Far East generally, upon which developments in Indochina must have an important bearing. Seven countries in southern Asia, embracing a quarter of the inhabitants of the globe, are in process of achieving autonomy or independence. The future orientation of these new nations, owing to the sheer numerical weight of their populations, the resources (human, agricultural and mineral) which they command, and their strategic location, is certain to be of profound consequence to the international position of the United States and to world stability. European controls are inevitably being relaxed or totally withdrawn. The possible eventualities which we most fear are (1) a Balkanization of this vast area resulting from racial, religious, and national discords, (2) economic prostration of any part of the area, which would foster political unrest and the development of Communist or other forms of totalitarianism, (3) the extension over any of these countries of new imperialist influences hostile to the United States, and (4) the growth of a bitter, anti-European

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outlook resulting from a failure of the former colonial powers to make adequate adjustment to the situation. The failure of our program in Indochina in any important respect would contribute to the realization of one or more of these eventualities, either locally or on a broader scale, and thus contribute toward a denial of the Far East to Western influence.

X. POSSIBLE EMERGENCY SITUATIONS WHICH SHOULD BE ANTICIPATED AND RECOMMENDED COURSE OF ACTION OF U.S.

The most serious emergency that can be anticipated would be created by civil war in France. In this emergency, relations between France and Indochina might be cut and a situation created requiring immediate action on our part. We would then, presumably, enter into direct negotiations with the existing authorities in Indochina, whether French or native, in order to maintain a stable regime in control of Indochina friendly to our interests. If the local Indochinese Government were dependent upon outside assistance to maintain itself, the United States, possibly in concert with the British Commonwealth, would have to extend assistance. In the event of Communist victory in France, our position vis-a-vis the French colonies would be analogous to that which pertained during the Vichy regime in France. Presumably our assumption of a large degree of responsibility in Indochina would then be inevitable.

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TOP SECRETA P P E N D I XSUMMARYI. ANALYSIS OF THE SITUATION IN THE COUNTRY.

Following the Japanese surrender, Annamese nationalists proclaimed the independence of the Republic of Vietnam comprising three of the five political divisions of French Indochina and having a population of 18 million. Negotiated agreements between the French and Vietnam Governments failed to reconcile conflicting interests. The result has been open warfare during the past seven months in Indochina.

The Government of Vietnam represents an alliance of Communist and nationalist forces. The Presidency and some of the most important ministries are held by men who formerly were or still are Communists. The President denies that his Government is Communist and the pattern of his regime appears to differ from the Communist pattern in other areas. However, proof of clear divergence between Vietnam and Stalinist aims and methods is lacking. Two facts stand out: First, that the Communist factor in Indochina is only one factor in the nationalist movement of tremendous momentum; second, that the Communists have succeeded in gaining positions of leadership on their record of staunch championship of the nationalist movement. The declared aim of the Vietnam Government is an independent Vietnam within the French Union. They attribute the present conflict to French efforts to reduce the Vietnam Republic to impotence.

The French have refused to concede the Vietnamese the degree of autonomy which they demand. In addition, they have been unwilling to deal with the present Vietnam Government on the grounds that it is a totalitarian regime seeking to establish a Communist state in Indochina. They regard all previous agreements as abrogated and desire a military decision over the Vietnam forces.

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Hostilities are continuing but have resulted in a relative stalemate. The French, with superior arms and equipment, control the major cities of the Territory claimed by Vietnam. The Vietnamese control the countryside. The military pacification of Indochina would probably require a French army at least three times the size of the present French forces.

The continuing military operations and the "scorched earth" policy pursued by the Vietnamese have had a ruinous effect upon Indochina's economy. Industry of all types is at a standstill, and equipment is deteriorating rapidly. Agriculture has suffered severely. The transportation and communications system has been greatly damaged. Many urban sections and whole villages have been destroyed. Inflation has been added to the Indochinese Government's financial difficulties and the cost of living has soared.

While the French and Vietnamese are still far apart on major differences, it is apparent that a lasting peace cannot be achieved except on the basis of compromise. As a condition of such a peace, Vietnam must unquestionably be granted a very considerable degree of autonomy. Moreover, it would seem almost inevitable that the French deal with the present Vietnam Government, which presumably commands the confidence of the Vietnamese and which is in effect the sole power in Vietnam beyond the French perimeter. It is feared that a continuation of the conflict will only drive more Annamese into the Communist camp and strengthen the Communist leaders both in their ideology and in their hold on the Annamese people. The hope is that the satisfaction of the nationalist demands of the Vietnamese will undermine the position of the extremists and clear the way for the ascendancy of moderate influences in the Government.

Among the other great powers, (1) Great Britain has indicated concern over the serious repercussions in nearby areas which may follow a continuation of the conflict, but has not taken an active role; (2) the USSR, in line with its policy toward colonial dependencies of Western powers, presumably would welcome a

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weakening of the bonds between France and Indochina and has supported the Vietnam Government in its propaganda, as has the French Communist Party; (3) China has given many indications of a strong desire to extend its influence over Northern Indochina and has attempted to interest both the U.S. and the U.K. in joint intervention.

## II. ANALYSIS OF ASSISTANCE ALREADY RECEIVED.

We have refused to supply the French with arms or ammunition for use in Indochina on the grounds that it is not the policy of this Government to assist them to re-establish their control over Indochina by force.

Post-war economic assistance received by Indochina from the United States has consisted of 8-1/2 million dollars worth of surplus property, mostly transportation and communications equipment, sold in Manila to the French Government by the Foreign Liquidation Commission in 1946 without specific reference to Indochina.

The 1945 and 1946 Export-Import Bank credits to France probably permitted larger French exports and dollar exchange allocations to Indochina than would otherwise have been possible.

The benefits that Indochina's economy might have received from the small amount of surplus U.S. materials and from U.S. aid in French industrial recovery have been precluded by the continuing disorders in the country. The political effects of this assistance have therefore been slight. However, without the arms which we provided the French Army for use in the European war, the French could scarcely have attempted to reassert their control over Indochina. The political consequences of this assistance have therefore been great. Some American arms have also reached the Vietnamese.

No direct U.S. financial aid to Indochina, or indirect assistance to Indochina through U.S. or International Bank credits to the French Government is under active consideration at this time. It is contemplated that the French Union may need

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substantial assistance during 1948. The French Government has announced that 8 billion francs (U.S. ~~512~~<sup>8112</sup> million) would be provided for reconstruction and development including restoration of peaceful conditions in Indochina.

### III. U.S. OBJECTIVES IN INDOCHINA.

Our objective is a prompt, peaceful, and lasting settlement of the present French-Vietnamese dispute providing for the creation of a stable Vietnamese state, that will remain in voluntary association with France and will meet the legitimate demands of the Vietnamese for self-government, and be responsive to their fundamental interests. We consider the creation of such a state as the best defense against disintegrative tendencies in Indochina that could lead to chronic disorder and political extremism, offer opportunities for the extension of Communism, or tempt the intervention of other powers. We believe, moreover, that the stability of Vietnam will depend in large measure upon the restoration of its economy.

### IV and V. MEANS OF REACHING OBJECTIVES AND MAGNITUDE, NATURE AND TIMING OF THE MEASURES REQUIRED WITHIN THE NEXT THREE TO FIVE YEARS TO REACH THESE OBJECTIVES.

We have already expressed to the French our views on the necessity of a speedy, peaceful solution of the conflict and on the probable serious consequences throughout the Far East of its long continuation. However, the French have declined our offer of help in bringing about a restoration of peace in Indochina. Owing to the precarious situation of the French Government itself, we have been reluctant to take any further political measures which might give an appearance of attempted intervention in Indochina. We may in the future, however, wish to define our position publicly for the sake of our position in Southeast Asia.

We cannot assist in the restoration of Indochina's economy until a political settlement is reached. Assuming that a settlement will be reached in 1947, it is estimated that completion of a reconstruction program by 1950 would require, at the minimum,

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imports from all countries of about \$120 million more than the proceeds of Indochinese exports during 1948 and 1949. Of this amount, Indochina's requirements for imports from the U.S. in excess of exports to the U.S. would comprise about \$75 million. The extension of American financial aid in this amount to enable Indochina to obtain capital equipment and necessary raw materials, would appear essential if a level of economic activity conducive to political stability is to be achieved in Indochina by 1950. Destruction resulting from current and continuing warfare may increase substantially the amount required. Such U.S. financial aid could be most effectively related to the achievement of U.S. objectives in Indochina if it were extended by this Government directly rather than by the International Bank. A Congressional appropriation of at least \$75 million for Indochina would therefore appear to be required should no loans be available from the Export-Import Bank.

With regard to the United Nations, we do not believe that it would be advantageous in the present circumstances for us to bring the French-Vietnamese dispute before the Security Council. However, we might well recommend in connection with our extension of financial aid, that specialized agencies of the UN extend assistance in modernizing agriculture and industry in Indochina and in various social services.

By providing a source of uncensored news, our Information and Cultural Program may be a factor in hastening a settlement of the conflict. Following such a settlement, a vigorous USIS program instituted in the Vietnamese capital should prove a means of combatting any anti-Western or pro-Communist trends in Vietnam.

In the present circumstances, it is not believed that any U.S. military assistance to either the French or Vietnamese could contribute to a peaceful and equitable settlement. However, should the Vietnam Government emerge as a clearly totalitarian authority, oriented toward and actively supported by the USSR, assistance to France might be necessary to prevent the establishment of a Communist state in Indochina.

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VI. PROBABLE AVAILABILITY OF ECONOMIC AID FROM EXISTING SOURCES UNDER PRESENT CONDITIONS.

Following the establishment of a firm peace in Indochina, existing agencies should be able to find economic justification for extension of credits to Indochina in view of the country's historically favorable balance of trade. However, the availability of funds from the International Bank is likely to be severely limited. At the same time, the limited export-potential of countries other than the U.S. will curtail investment in Indochina by the nationals of those countries, while American private capital is not likely to be interested unless more favorable treatment is offered to foreign investors in Indochina than in the past. Although the intended French reconstruction credit of 8 billion francs will cover Indochina's trade deficit with France for 1948 and 1949, it is believed that no other country than the U.S. is now in a position to extend substantial long-term public credits to Indochina.

VIII. NATURE OF ARRANGEMENTS WITH THE FOREIGN GOVERNMENT TO ASSURE ACCOMPLISHMENT OF OUR OBJECTIVES IN TAKING SUCH MEASURES.

Since no anticipated political settlement is likely to recognize Indochina as a sovereign state, any loans which may subsequently be made would have to be guaranteed by the Metropolitan French Government. Financial aid for Indochina might, in fact, be part of a loan by the U.S. to France, specifically designated for Indochina. In discussions of projected U.S. assistance to Indochina, we shall in all likelihood wish to include representatives of Vietnam. We shall certainly wish to introduce in such discussions a review of the restrictive measures by which the French in the past have dominated Indochina's economy to its detriment, although it may not be possible for us to obtain their full repeal.

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TOP SECRETIX. EFFECTS UPON THE COUNTRY AND UPON U.S. FOREIGN POLICY IN U.S. REFUSAL TO GRANT AID OR OF FAILURE OF PROGRAM UNDERTAKEN.

Our concern with Indochina is predicated upon our interest in the Far East generally, upon which developments in Indochina must have an important bearing. Should our program fail, Indochina could become an area of chronic disorder and bloodshed, a source of political extremism infecting other areas, a fertile field for the intervention of other powers, or a Communist beachhead in southeastern Asia.

X. POSSIBLE EMERGENCY SITUATIONS WHICH SHOULD BE ANTICIPATED AND RECOMMENDED COURSE OF ACTION OF U.S.

The most serious emergency that can be anticipated would be created by civil war in France. In this event we should probably be impelled to establish direct relationship -- probably in concert with the British Commonwealth -- with existing authorities in Indochina, French or Indochinese, in order to maintain a stable regime friendly to our interests. In the event of a Communist victory in France, our position vis-a-vis the French colonies would be analogous to that which pertained during the Vichy regime.